



*Advising the Congress on Medicare issues*

# Evaluating risk adjusters for Part D

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October 3, 2008

# Payments to plans under Medicare Part D

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- Monthly payment per enrollee
  - Amount reflects each plan's expected cost of basic benefits for an enrollee of average health
  - Adjusted for each enrollee's risk score
    - Demographic characteristics and medical diagnoses
    - Low-income subsidy (LIS) and institutional status
- Risk corridor payments
  - Limit a plan's overall losses or profits (symmetric)
  - Corridors widened in 2008
  - Secretary may further widen the corridors in 2012

# Medicare law requires risk adjustment

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- Requires Secretary to establish method to adjust for differences in actuarial risk
- Must be budget neutral
- Requires plans to submit drug utilization data, but does not require CMS to use it for risk adjustment

# Prescription drug hierarchical condition category (RxHCC) model

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- Developed prior to 2006
- Compared to Medicare Advantage risk adjustment
  - Similarities
    - Prospective based on last year's diagnoses
    - Hierarchical disease groups
  - Differences
    - Predicts drug rather than medical spending
    - Uses more diagnoses
- Does not currently use information on past drug use to predict future drug spending

# Issues to consider

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- Inaccurate risk adjustment results in undesirable incentives
- Basing risk adjusters on past drug spending could affect incentives to control costs
- Adding information about past drug utilization rather than spending may be preferable, but needs to be done with care